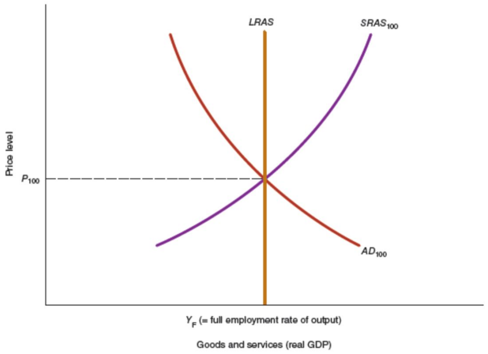
MACRO

- Macro Deep Dive into GDP, Inflation, and Unemployment
- AD | AS: Keynesion, Short Run (SR), and Long Run (LR)
- Policy Possibilities - Monetary, Fiscal, and Trade
- Short Essay Tips
- Review last year’s
  - Download Part A (Short responses)
  - Download Part B (Multiple-choice)
  - Download Part C (Oral)



AD | AS

Aggregate Demand (AD)
Aggregate Supply (AS)

GROSS DOMESTIC PRODUCT (GDP)

All final goods and services produced within a countries borders using productive resources (H, L, K, ET) in a specific period, usually a year or quarter.

$$\mathbf{GDP = C + Ig + G + (EX\text{-}IM)}$$

GROSS NATIONAL PRODUCT (GNP)

All final goods and services produced within and outside a countries borders using country' productive resources (H, L, K, ET) in a specific period, usually a year or quarter.

$$GNP = C + Ig + G + (EX\text{-}IM) + FI_{row} - FI_{row}$$

INFLATION RATE (%)

PRICE INDEX, not price

1. Consumer price index (CPI) prices of representative bundle of goods and services typically purchased by urban households
2. Producer price index (PPI) wholesale prices, including intermediate goods and raw materials
3. GDP Deflator = [NGDP/RDP)]/100, expressed %

UNEMPLOYMENT

- Population = Included in the the LF and Excluded from the LF
- LF = Employed + Unemployed
    - ActIvely seeking
    - Age greater than or equal to 16
    - Not institutionalized

Circle the key terms in the stem of each question

____ 1. Which of the following will most likely occur during the expansionary phase of a business cle?
   a. Interest rates rise, and the number of business failures rise.
   b. Real GDP rises, and unemployment falls.
   c. Real GDP declines, and inflation rises.
   d. Inflation rises, and employment falls.

____ 2. If an unanticipated increase in aggregate demand results in an output beyond the economy's lon pacity, long-run equilibrium will eventually be restored by
   a. higher resource prices and an increase in SRAS.
   b. a decrease in the natural rate of unemployment.
   c. an increase in the economy's productive capacity (LRAS shifts to the right).
   d. higher resource prices and a decrease in SRAS.

____ 3. As the dollar depreciates, which of the following is most likely to occur?
   a. American firms will increase their purchases of financial assets abroad.
   b. More Americans will travel abroad.
   c. American imports will rise.
   d. More foreigners will visit the United States.

____ 4. Which of the following will most likely occur if import restrictions prohibit foreigners from goods in the U.S. market?
   a. The United States will be able to export more goods abroad.
   b. Foreigners will have fewer U.S. dollars with which to buy goods from Americans.
   c. The United States will be able to produce a larger output than would otherwise be the case.
   d. The domestic producers in the protected industries will supply goods to U.S. consumers at lower prices than would otherwise be the case.

____ 5. Within the framework of the Keynesian model,
   a. the economy will continually be in equilibrium.
   b. changes in output rather than changes in prices direct the economy to equilibrium.
   c. changes in prices rather than changes in output direct the economy to equilibrium.
   d. changes in interest rates and resource prices will direct the economy to equilibrium.

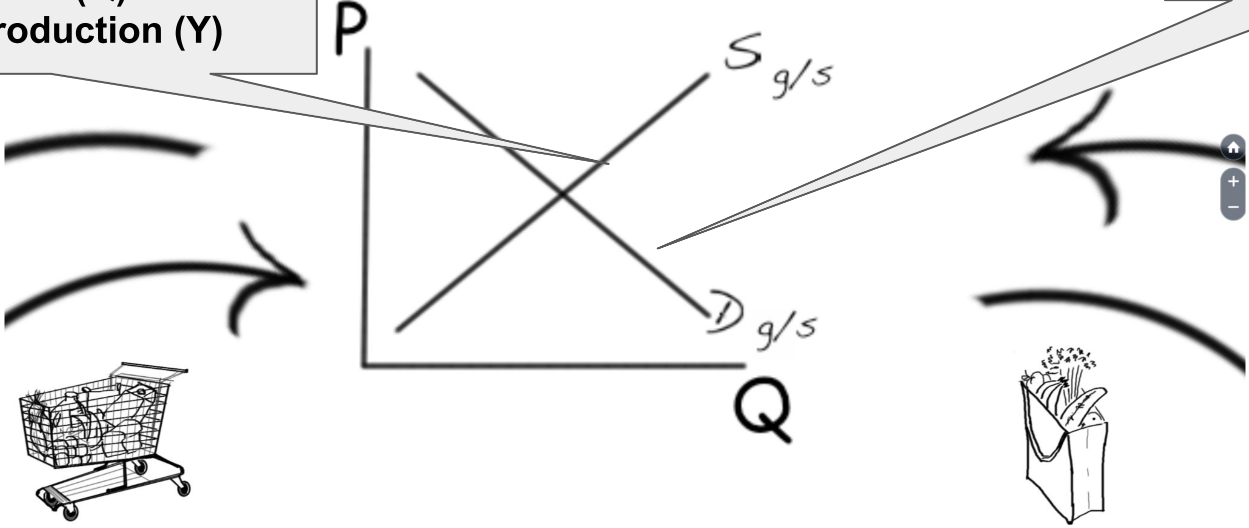
Search for the BUZZ words in the stem

Macroeconomy - Closed; No Capital Market; No Gov

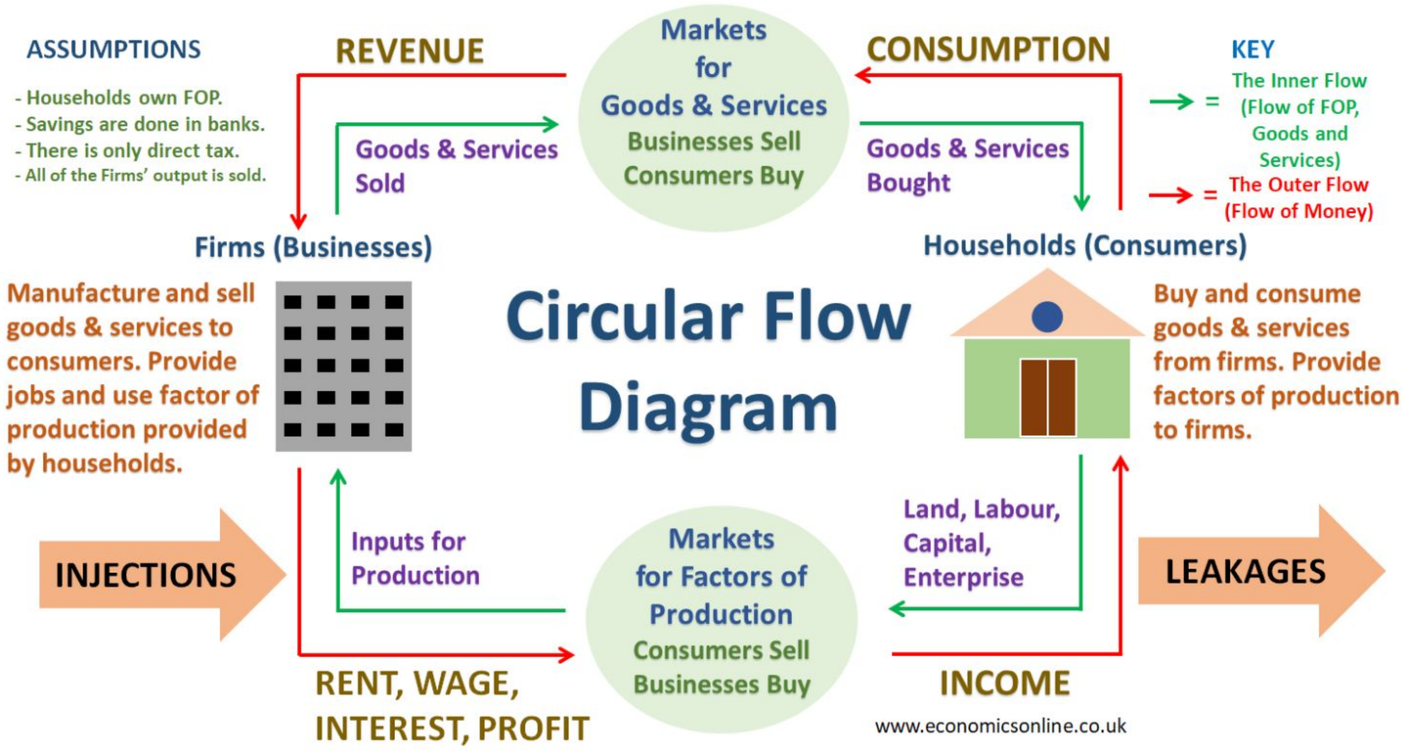
Market for goods and services

Production (Q)
Aggregate Production (Y)

Consumption (C)



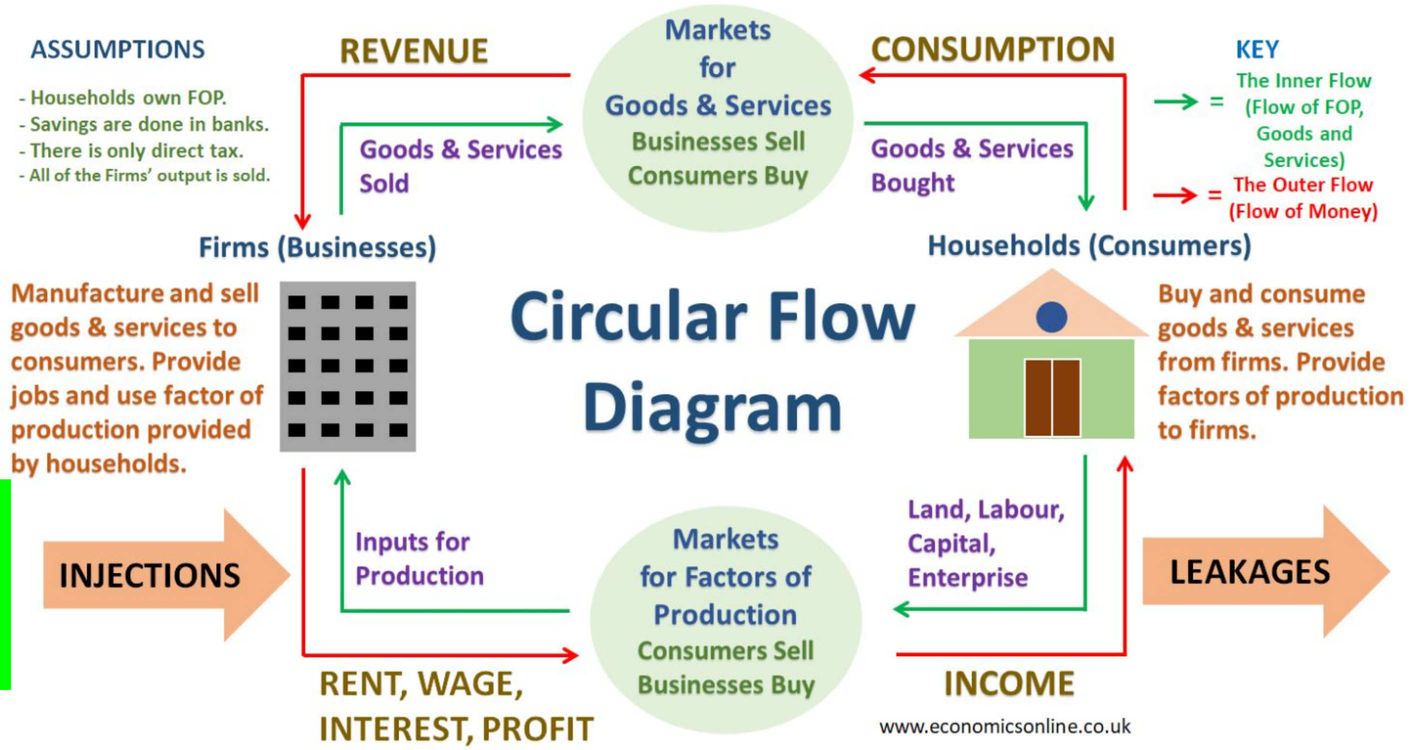
CFD (closed, no government, or financial capital markets)



Source: https://www.economicsonline.co.uk/definitions/the-circular-flow-diagram.html/

CFD (closed, no government, or financial capital markets)

+EX
+G
+Ig



-IM
-Taxes
-S

Circular Flow Diagram: Injections and Leakages

Which of the following best describes the core function of the Financial/Capital market within the Circular Flow Diagram and its role in creating ripple effects throughout the macroeconomy?

Which of the following best describes the core function of the Financial/Capital market within the Circular Flow Diagram and its role in creating ripple effects (injections and leakages) throughout the macroeconomy?

a. The Financial/Capital market is responsible for the exchange of goods and services between households and firms. A disruption in this market, such as a supply chain issue, can lead to shortages and price increases, affecting consumer spending and business profitability.
b. The Financial/Capital market is where households supply labor to firms in exchange for wages. A disruption in this market, such as a strike or a change in minimum wage laws, can affect production levels and consumer spending, creating ripple effects throughout the economy.
c. The Financial/Capital market deals with the exchange of domestic currency for foreign currency. Disruptions in this market, such as a sharp appreciation or depreciation of the currency, can affect the trade balance and domestic prices, impacting various sectors of the economy.
d. The Financial/Capital market involves the flow of funds between the government and other economic participants through taxation and government spending. Disruptions in this market, such as a government shutdown or a significant change in tax policy, can affect aggregate demand and economic growth.
e. The Financial/Capital market facilitates the flow of funds between savers and borrowers, enabling investment in capital goods. Disruptions in this market, such as a credit crunch, can reduce investment, leading to lower economic growth and employment across sectors.

Which of the following best describes the core function of the Financial/Capital market within the Circular Flow Diagram and its role in creating ripple effects (injections and leakages) throughout the macroeconomy?

a. The Financial/Capital market is responsible for the exchange of goods and services between households and firms. A disruption in this market, such as a supply chain issue, can lead to shortages and price increases, affecting consumer spending and business profitability.

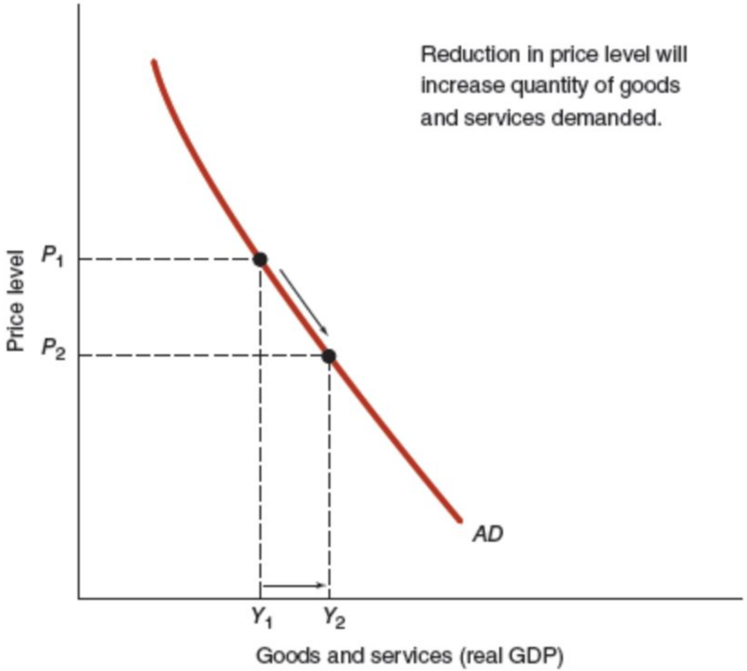
b. The Financial/Capital market is where households supply labor to firms in exchange for wages. A disruption in this market, such as a strike or a change in minimum wage laws, can affect production levels and consumer spending, creating ripple effects throughout the economy.

c. The Financial/Capital market deals with the exchange of domestic currency for foreign currency. Disruptions in this market, such as a sharp appreciation or depreciation of the currency, can affect the trade balance and domestic prices, impacting various sectors of the economy.

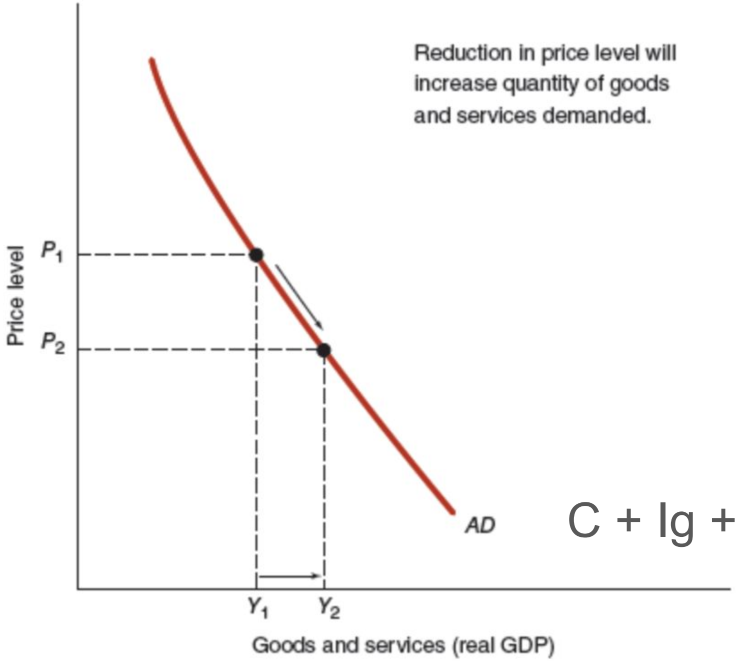
d. The Financial/Capital market involves the flow of funds between the government and other economic participants through taxation and government spending. Disruptions in this market, such as a government shutdown or a significant change in tax policy, can affect aggregate demand and economic growth.

e. The Financial/Capital market facilitates the flow of funds between savers and borrowers, enabling investment in capital goods. Disruptions in this market, such as a credit crunch, can reduce investment, leading to lower economic growth and employment across sectors.

Aggregate Demand (AD): CPI (Price level) and Y (RGDP)



Aggregate Demand (AD): PL and Y



C + Ig + G + (EX-IM)

Which of the following correctly lists and describes the **<u>three reasons</u>** why the **aggregate demand (AD) curve slopes downward**?

a. Real wealth effect, income effect, and substitution effect: As the price level decreases, consumers feel wealthier, their income increases, and they substitute more expensive goods with cheaper ones, leading to an increase in the quantity of goods and services demanded.

b. Real wealth effect, interest rate effect, and exchange rate effect: As the price level decreases, the purchasing power of consumers' wealth increases, interest rates tend to fall, and the domestic currency may depreciate, all contributing to an increase in the quantity of goods and services demanded.

c. Real wealth effect, multiplier effect, and accelerator effect: As the price level decreases, consumers feel wealthier, the initial increase in spending leads to a larger increase in overall output, and businesses invest more in response to increased demand, resulting in a higher quantity of goods and services demanded.

d. Interest rate effect, exchange rate effect, and fiscal policy effect: As the price level decreases, interest rates fall, the domestic currency depreciates, and the government increases spending or reduces taxes, leading to an increase in the quantity of goods and services demanded.

e. Real wealth effect, cost-push effect, and demand-pull effect: As the price level decreases, consumers feel wealthier, produ costs decrease, and overall demand increases, causing a rise in the quantity of goods and services demanded.

Which of the following correctly lists and describes the <u>**three reasons**</u> **why the aggregate demand (AD) curve slopes downward**?

a. Real wealth effect, income effect, and substitution effect: As the price level decreases, consumers feel wealthier, their income increases, and they substitute more expensive goods with cheaper ones, leading to an increase in the quantity of goods and services demanded.

b. Real wealth effect, interest rate effect, and exchange rate effect: As the price level decreases, the purchasing power of consumers' wealth increases, interest rates tend to fall, and the domestic currency may depreciate, all contributing to an increase in the quantity of goods and services demanded.

c. Real wealth effec ... feel wealthier, the initial
increase in spendi ... to increased demand,
resulting in a high

d. Interest rate ... rates fall, the domestic
currency deprecia ... the quantity of goods and
services demande

e. Real wealth e ... feel wealthier, prod
costs decrease, a ... nded.

b. Real wealth effect (C), interest rate effect (Ig), and exchange rate effect (EX and IM) As the price level decreases, the purchasing power of consumers' wealth increases (C+), interest rates tend to fall (Ig+), and the domestic currency may depreciate (EX+;IM-), all contributing to an increase in the quantity of goods and services demanded.

What happens along the AD curve. resulting from the change in the purchasing power of consumers' wealth when the price level decreases?

a. The purchasing power of consumers' income increases.

b. The real value of consumers' assets, such as savings accounts and bonds, rises.

c. Consumers feel wealthier due to the increased purchasing power of their wealth.

d. Consumers are more likely to increase their consumption spending.

e. The increased consumption spending contributes to a higher quantity of goods and services demanded at the lower price level.

What happens **along** the AD curve. resulting from the **change in the purchasing power of consumers' wealth** when the **price level *decreases***?

a. The purchasing power of consumers' income increases.

b. The real value of consumers' assets, such as savings accounts and bonds, rises.

c. Consumers feel wealthier due to the increased purchasing power of their wealth.

d. Consumers are more likely to increase their consumption spending.

e. The increased consumption spending contributes to a higher quantity of goods and services demanded at the lower price level.

e. The increased consumption spending (C+) contributes to a higher aggregate quantity of goods and services demanded at the lower price level.

Which of the following statements best distinguishes consumer wealth from income?

a. Income is earned and received on a regular basis, while wealth is the total stock of assets accumulated over time, minus any liabilities.

b. Income is the flow of money received by an individual or household over a specific period, usually from wages, salaries, investments, or other sources.

c. Income can be more volatile and subject to change based on factors such as employment status, business conditions, or investment returns.

d. Income is generally more liquid, as it is readily available for spending or saving.

e. Income and wealth distribution can differ within an economy, with some individuals having high incomes but relatively low wealth, and others having substantial wealth but lower incomes.

Which of the following statements best **distinguishes** consumer wealth from income?

a. Income is earned and received on a regular basis, while wealth is the total stock of assets accumulated over time, minus any liabilities.

b. Income is the flow ... specific period, usually from wages, salaries, inv...

c. Income can be m... employment status, business conditions, ...

d. Income is generally more liquid, as it is readily available for spending or saving.

e. Income and wealth distribution can differ within an economy, with some individuals having high incomes but relatively low wealth, and others having substantial wealth but lower incomes.

a. Income is earned and received on a regular basis, while wealth is the total stock of assets accumulated over time, minus any liabilities.

Which of the following statements best explains how a lower price level affects interest rates and consumer spending?

a. A lower price level reduces the supply of money, leading to higher interest rates and decreased consumer spending on goods and services.

b. A lower price level increases the demand for money, causing interest rates to rise and stimulating additional purchases by consumers and businesses.

c. A lower price level has no effect on the demand for money or interest rates, but it directly encourages consumers and businesses to spend more on goods and services.

d. A lower price level reduces the demand for money, leading to lower interest rates, which stimulates additional purchases by consumers and businesses.

e. A lower price level increases the supply of money, causing interest rates to fall, but this has no effect on consumer spending or the demand for goods and services.

Which of the following statements best explains how a lower price level affects interest rates and consumer spending?

a. A lower price level reduces the supply of money, leading to higher interest rates and decreased consumer spending on goods and services.

b. A lower price level increases the demand for money, causing interest rates to rise and stimulating additional purchases by consumers and businesses.

c. A lower price level has no effect on the demand for money or interest rates, but it directly encourages consumers and businesses to spend more on goods and services.

d. A lower price level reduces the demand for money, leading to lower interest rates, which stimulates additional purchases by consumers and businesses.

e. A lower price level increases the su effect on consumer spending or the demand

d. A lower price level reduces the demand for money, leading to lower interest rates, which stimulates additional purchases by consumers (C+) and businesses (Ig+).

Which of the following best explains the impact of a lower domestic price level on net exports and aggregate demand?

a. A lower domestic price level makes domestically produced goods more expensive relative to foreign goods, leading to a decrease in exports, an increase in imports, and a decline in net exports, which reduces aggregate demand.

b. A lower domestic price level has no effect on the relative prices of domestically produced goods and foreign goods, leaving net exports and aggregate demand unchanged.

c. A lower domestic price level makes domestically produced goods less expensive relative to foreign goods, leading to an increase in exports, a decrease in imports, and a rise in net exports, which increases aggregate demand.

d. A lower domestic price level makes domestically produced goods less expensive relative to foreign goods, but this has no effect on net exports or aggregate demand, as the international-substitution effect is not significant.

e. A lower domestic price level makes domestically produced goods more expensive relative to foreign go
leading to an increase in exports, a decrease in imports, and a rise in net exports, which increases aggrega

Which of the following best explains the impact of a lower domestic price level on net exports and aggregate demand?

a. A lower domestic price level makes domestically produced goods more expensive relative to foreign goods, leading to a decrease in exports, an increase in imports, and a decline in net exports, which reduces aggregate demand.

b. A lower domestic price level has no effect on the relative prices of domestically produced goods and foreign goods, leaving net exports and aggregate demand unchanged.

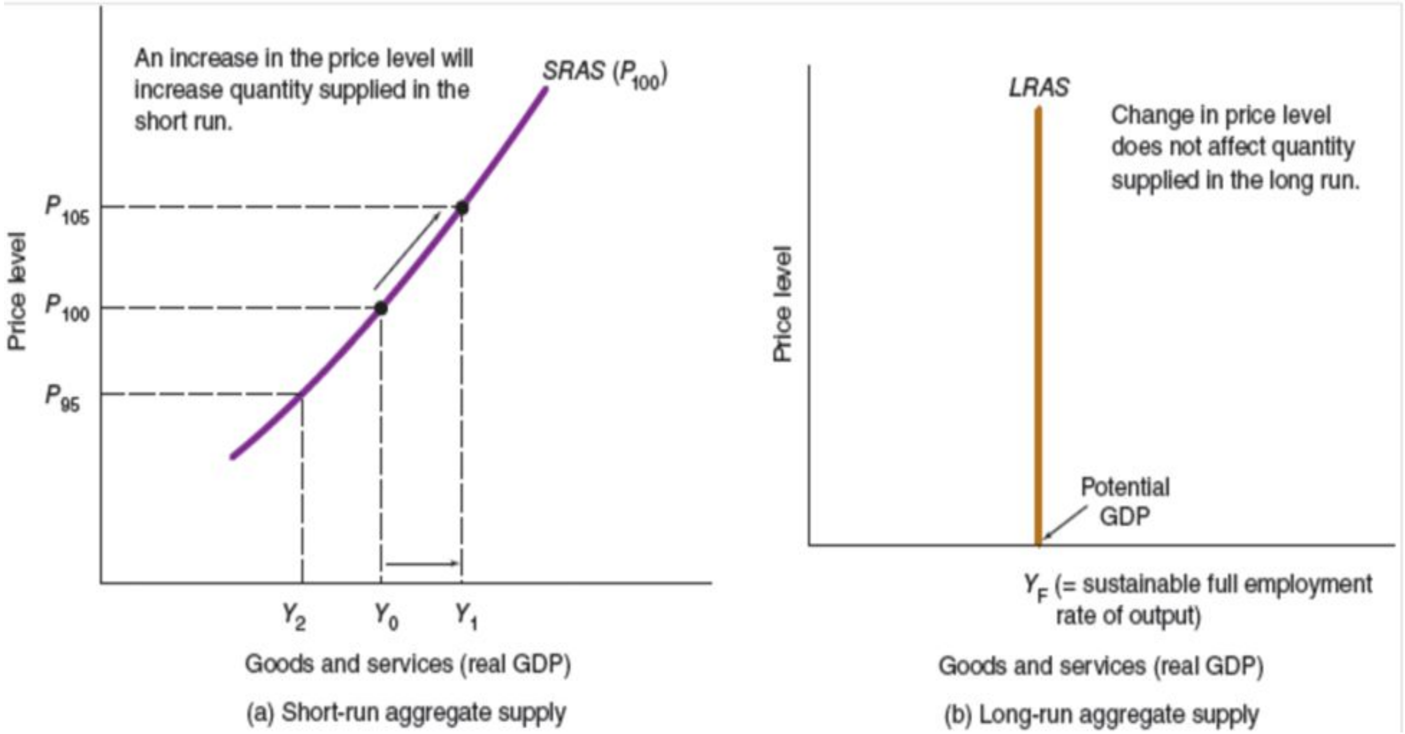
c. A lower domestic price level makes domestically produced goods less expensive relative to foreign goods, leading to an increase in exports, a decrease in imports, and a rise in net exports, which increases aggregate demand.

d. A lower domestic price level makes do… ods, but this has no effect on net exports or aggre… icant.

e. A lower domestic price level makes do… leading to an increase in exports, a decre… demand.

c. A lower domestic price level makes domestically produced goods less expensive relative to foreign goods, leading to an increase in exports, a decrease in imports, and a rise in net exports, which increases aggregate demand.

Aggregate Supply (AS) - Short run and long run



Which of the following best describes the relationship between the price level and the short-run aggregate supply (SRAS) curve?

a. The SRAS curve is based on the actual price level, and when the price level unexpectedly increases, firms' profitability decreases, leading to a reduction in output.

b. The SRAS curve is based on the expected price level, and when the price level unexpectedly increases, firms' profitability increases, leading to an expansion in output.

c. The SRAS curve is based on the expected price level, but changes in the actual price level have no effect on firms' profitability or output decisions in the short run.

d. The SRAS curve is based on the actual price level, and when the price level unexpectedly decreases, firms' profitability increases, leading to an expansion in output.

e. The SRAS curve is based on the expected rate of inflation, and changes in the actual price level have no effect on firms' profitability or output decisions in the short run.

Which of the following best describes the relationship between the price level and the short-run aggregate supply (SRAS) curve?

a. The SRAS curve is based on the actual price level, and when the price level unexpectedly increases, firms' profitability decreases, leading to a reduction in output.

b. The SRAS curve is based on the expected price level, and when the price level unexpectedly increases, firms' profitability increases, leading to an expansion in output.

c. The SRAS cur … he actual price level have no effect on firms' p …

b. The SRAS curve is based on the expected price level, and when the price level unexpectedly increases, firms' profitability increases, leading to an expansion in output.

d. The SRAS cu … evel unexpectedly decreases, firms' profitability …

e. The SRAS cu … in the actual price level have no effect on firms' profitability or output decisions in the short run.

Which of the following best explains why changes in the price level affect the quantity of output supplied in the short run but not in the long run?

a. In the short run, some resource prices are fixed due to long-term contracts, while in the long run, all resource prices adjust proportionally to changes in the price level.

b. In the short run, firms have a limited capacity to increase production, while in the long run, they can freely expand output regardless of the price level.

c. In the short run, the government implements policies to encourage output changes in response to price level changes, while in the long run, these policies are removed.

d. In the short run, consumers are more sensitive to price changes, while in the long run, their demand for goods and services becomes inelastic.

e. In the short run, technological constraints prevent firms from adjusting output in response to price level changes, while in the long run, these constraints disappear.

Which of the following best explains why changes in the price level affect the quantity of output supplied in the short run but not in the long run?

a. In the short run, some resource prices are fixed due to long-term contracts, while in the long run, all resource prices adjust proportionally to changes in the price level.

b. ... ease production, while in the long run, they can

... o encourage output changes in response to price ... moved.

a. In the short run, some resource prices are fixed due to long-term contracts, while in the long run, all resource prices adjust proportionally to changes in the price level.

... e changes, while in the long run, their demand for goods and services becomes inelastic.

e. In the short run, technological constraints prevent firms from adjusting output in response to price level changes, while in the long run, these constraints disappear.